COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED
MAY 23 2005
PUBLIC SERVICE COMMISSION

IN THE MATTER OF

KENTUCKY POWER COMPANY'S SECOND	**)**	
AMENDED ENVIRONMENTAL COMPLIANCE	**)**	**Case No. 2005-00068**
PLAN AND SECOND REVISED TARIFF	**)**	

RESPONSES OF KENTUCKY POWER
D/B/A
AMERICAN ELECTRIC POWER

KIUC SECOND SET OF DATA REQUESTS

May 23, 2005

Kentucky Power
d/b/a
American Electric Power

REQUEST

Please provide copies of all bond rating agency reports (Moody's, Standard and Poor's, Fitch, etc.) for Kentucky Power Company for 2002-2005

RESPONSE

Kentucky Power Company objects to this data request as broad, burdensome, irrelevant, and not calculated to lead to relevant information.

Copies of Moody's, Standard and Poor's and Fitch's rating reports are attached.

WITNESS: Errol K Wagner

Return to Regular Format

Research:

Summary: Kentucky Power Co.

Publication date: 04-Nov-2002
Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676

Credit Rating: BBB+/Stable/--

Rationale

The ratings of American Electric Power Co. Inc. (AEP) and the various AEP subsidiaries, such as like Kentucky Power, reflect the expected business and financial profiles that will result from a planned corporate restructuring that is expected to be effected by the end of 2002.

In the restructuring, AEP will be organized along its two main lines of business. A majority of the financing of company's operations will be accomplished through two sub-holding companies housing the regulated utilities (a yet-to-be-named "RegCo") and unregulated energy ventures (a yet-to-be-named "UnRegCo"), so the senior debt at each will be assigned ratings equivalent to the corporate credit ratings. The new corporate structure will be beneficial to AEP's business profile by clearly defining the source of regulated and unregulated earnings and cash flows.

The ratings reflect the strong and complementary businesses of AEP's electric utility operating subsidiaries, and the large, 22,000 MW portfolio of unregulated electric generating plants. A prominent electric and natural gas marketing and trading operation exerts a dampening influence on AEP's consolidated credit profile.

AEP's regulated utility operations are characterized by a large and diverse collection of both integrated and distribution-only utilities that serve almost five million customers from Ohio and Virginia to Texas. The geographic breadth and the diverse, balanced mix of customers support credit quality. AEP's low cost structure and competitive rates also add to the strong business position of most of the utilities.

Unregulated activities are centered around a large portfolio (about 18,000 MW) of domestic merchant electric generating plants, mainly in Ohio and Texas, over 4,000 MW of electric generation in the United Kingdom, two lightly regulated intrastate natural gas pipelines in Texas and Louisiana, coal mining operations in Ohio and Kentucky, and coal transportation assets. Overlaying all of these assets is a marketing and trading enterprise that holds a leading position in both electricity and natural gas wholesale markets in the U.S.

Liquidity

As of June 30, 2002, AEP had $544 million of cash and cash equivalents, and approximately $1.4 billion in commercial paper outstanding. The company operates a money pool and sell accounts receivables to provide liquidity for the domestic electric subsidiaries.

Liquidity is provided through a commercial paper program at the parent that lends to subsidiaries through inter-company notes. The commercial paper program is backed by $3.5 billion in bank facilities that matures in 2003 ($2.5 billion) and 2005 ($1 billion).

AEP also has a $1.725 billion bank facility expiring in April 2003 ($600 million outstanding at June 30, 2002) that is available for debt refinancing in connection with corporate reorganization. AEP has one meaningful financing ($750 million) that has a non-investment-grade ratings trigger, but AEP's access to liquidity should continue to be adequate based upon amounts available under its revolving credit facilities.

Two factors could result in a worsening liquidity scenario, but are unlikely to materialize. The company's activities in energy marketing and trading can present a significant call on liquid resources in a deteriorating credit environment. The second factor is the unusually high levels of short-term debt now carried by AEP, which is related to the impending corporate restructuring. The company plans to extend the term of most of the short-term debt as it implements the restructuring.

Outlook

The outlook assumes a reasonable burden of future environmental compliance costs and measured growth on the unregulated side that does not overwhelm the contribution of regulated operations to AEP's overall credit profile. Constant attention to risk management in the marketing and trading segment is crucial to maintain ratings. Continuing the recent improvements in the company's balance sheet and other key credit measures will be necessary for continued rating stability.

Copyright © 1994-2005 Standard & Poor's, a division of The McGraw-Hill Companies. The McGraw-Hill Companies
All Rights Reserved. Privacy Policy

STANDARD &POOR'S	RATINGSDIRECT

KPSC Case No. 2005-00068
KIUC 2nd Set Data Request
Item No. 1
Page 4 of 25

Return to Regular Format

Research:

Summary: Kentucky Power Co.

Publication date: 25-Jul-2003
Credit Analyst: Todd A. Shipman, CFA, New York (1) 212-438-7676

Credit Rating: BBB/Stable/--

Rationale

Kentucky Power Co. is a subsidiary of electric utility company American Electric Power Co. Inc. (AEP), and the ratings reflect the consolidated credit profile of the entire AEP system. The ratings represent Standard & Poor's Ratings Services' assessment of AEP's foundational credit quality as it transitions to a renewed, strategic focus on core utility operations, from a balanced business model with both regulated and unregulated activities. Although AEP has taken the necessary, near-term steps to address the effect of the write-offs on its balance sheet, the plan proved to be insufficient to produce a credit profile that supports a 'BBB+' rating.

AEP has improved its liquidity and balance sheet by refinancing more than $2 billion in utility debt, extending the terms of bank credit facilities, and issuing more than $1 billion of common equity. In the future, the company intends to use a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance sheet leverage to continue credit quality restoration. AEP's decisive actions are strong indications of its commitment to credit quality and were instrumental in achieving a stable outlook for the ratings.

Liquidity.

AEP's liquidity is adequate. As of March 31, 2003, the company had $1.8 billion in cash and ample capacity under its bank facility to meet working capital needs. About $1.7 billion of long-term debt comes due in the following year.

Outlook

The stable outlook assumes a reasonable burden of future environmental compliance costs and a continued, strategic emphasis on regulated operations. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings are possible over time, if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile.

Copyright © 1994-2005 Standard & Poor's, a division of The McGraw-Hill Companies. The McGraw-Hill Companies
All Rights Reserved. Privacy Policy

STANDARD &POOR'S	RATINGSDIRECT

Return to Regular Format

Research:

Summary: Kentucky Power Co.

Publication date: 12-Sep-2003
Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676

Credit Rating: BBB/Stable/--

Rationale

Kentucky Power Co. is a subsidiary of electric utility company American Electric Power Co. Inc. (AEP), and the ratings reflect the consolidated credit profile of the entire AEP system. The ratings represent Standard & Poor's Ratings Services' assessment of AEP's foundational credit quality as it transitions to a renewed, strategic focus on core utility operations, from a balanced business model with both regulated and unregulated activities. Although AEP has taken the necessary, near-term steps to address the effect of the write-offs on its balance sheet, the plan proved to be insufficient to produce a credit profile that supports a 'BBB+' rating.

AEP has improved its liquidity and balance sheet by refinancing more than $2 billion in utility debt, extending the terms of bank credit facilities, and issuing more than $1 billion of common equity. In the future, the company intends to use a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance-sheet leverage to continue credit quality restoration. AEP's decisive actions are strong indications of its commitment to credit quality and were instrumental in achieving a stable outlook for the ratings.

Liquidity.

AEP's liquidity is adequate. As of June 2003, the company had substantial cash on hand and ample capacity under its bank facility to meet working capital needs. About $1.7 billion of long-term debt comes due in the next year.

Outlook

The stable outlook assumes a reasonable burden of future environmental compliance costs and a continued, strategic emphasis on regulated operations. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings are possible over time, if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile.

Copyright © 1994-2005 Standard & Poor's, a division of The McGraw-Hill Companies. All Rights Reserved. Privacy Policy

STANDARD &POOR'S | RATINGSDIRECT

Return to Regular Format

Research:

Summary: Kentucky Power Co.

Publication date: 24-Dec-2003
Credit Analyst: Todd A Shipman, CFA, New York (1) 212-438-7676

Credit Rating: BBB/Stable/--

Rationale

Ratings for Kentucky Power Co. (KP) reflect parent American Electric Power Co. Inc.'s (AEP) foundational credit quality as the company transitions to a renewed strategic focus on its core utility operations from a balanced business model with both regulated and unregulated activities. The electric utilities comprising the AEP system range from Texas to Ohio and beyond and operate as either low-risk "wires" businesses or fully integrated regulated utilities. Electric generation is housed in both in and out of utility rate bases, but a majority of the capacity is directly or virtually subject to stabilizing regulatory oversight. Trading operations once played a prominent role at AEP, but have ceased to be a strategic focus.

AEP has improved its liquidity and balance sheet by refinancing over $2 billion in utility debt, extending the terms of bank credit facilities, and issuing over $1 billion of common equity. In the future, the company intends to use a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance-sheet leverage to continue its credit quality restoration. AEP's decisive actions are strong indications of its commitment to credit quality.

Liquidity.

AEP's liquidity is adequate. The company has substantial cash on hand and ample capacity under its bank facility to meet working capital needs. About $1.7 billion of long-term debt comes due in the following year. The company operates a money pool and sells accounts receivables to provide liquidity for the domestic electric subsidiaries.

Liquidity is provided through a commercial paper program at the parent level that lends to subsidiaries through intercompany notes. The commercial paper program is backed by $2.5 billion in bank facilities that mature in 2004 ($750 million), 2005 ($1 billion), and 2006 ($750 million).

AEP has one financing ($525 million) that has a noninvestment-grade ratings trigger, but AEP's access to liquidity should continue to be adequate, based on amounts available under its evolving credit facilities.

The two factors previously identified by Standard & Poor's that threatened liquidity and thus credit quality (specifically energy marketing and trading (EM&T) activities and unusually high levels of short-term debt) were both addressed in 2002 and 2003 and no longer represent a significant risk to the company's ability to access capital and maintain liquidity.

Outlook

The stable outlook assumes a reasonable burden of future environmental compliance costs and a continued strategic emphasis on regulated operations. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings would be possible over time if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile.

Copyright © 1994-2005 Standard & Poor's, a division of The McGraw-Hill Companies.
All Rights Reserved. Privacy Policy

STANDARD &POOR'S | RATINGSDIRECT

Return to Regular Format

Research:
Summary: Kentucky Power Co.

Publication date: 30-Mar-2004
Credit Analyst: Todd A. Shipman, CFA, New York (1) 212-438-7676

Credit Rating: BBB/Stable/--

Rationale

The ratings on Kentucky Power Co. reflect parent American Electric Power Co. Inc.'s (AEP) foundational credit quality as the company transitions to a renewed strategic focus on its core utility operations from a balanced business model with both regulated and unregulated activities. The electric utilities comprising the AEP system range from Texas to Ohio and beyond and operate as either low-risk "wires" businesses or fully integrated regulated utilities. Electric generation is housed in and out of utility rate bases, but a majority of the capacity is directly or virtually subject to stabilizing regulatory oversight. Trading operations once played a prominent role at AEP, but have ceased to be a strategic focus and exert a smaller influence on the company's credit profile.

Electric utility operations are slightly above average, characterized by competitive rates, good reliability, a strong collection of low-cost, coal-fired generation in the eastern part of the system, and mostly supportive regulatory relationships. Service territories vary widely, ranging from rust-belt and rural areas that exhibit less-than-favorable economic profiles to higher-growth, service economy-oriented regions like Columbus, Ohio that are much more resistant to economic cycles. For AEP, the diversity in markets and regulation improves credit quality. In the two primary states that have introduced competition (Texas and Ohio) the transition is being managed in a fairly low-risk fashion, but the development of competition has been spotty, especially in Ohio, and some uncertainty exists about the future of deregulation.

AEP has improved its liquidity and balance sheet by refinancing over $2 billion in utility debt, extending the terms of bank credit facilities, and issuing more than $1 billion of common equity. In the future, the company intends to use a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance-sheet leverage to continue its credit quality restoration. Given AEP's business profile, financial expectations are for debt leverage to approach 50%, cash flow coverage of around 3.5x, and earnings coverage of about 3x.

Liquidity.

AEP's liquidity is adequate. The company has substantial cash on hand and ample capacity under its bank facility to meet working capital needs. About $1.7 billion of long-term debt comes due in the following year. The company operates a money pool and sells accounts receivables to provide liquidity for the domestic electric subsidiaries.

Liquidity is provided through a commercial paper program at the parent that lends to subsidiaries through intercompany notes. The commercial paper program is backed by $2.5 billion in bank facilities that mature in 2004 ($750 million), 2005 ($1 billion), and 2006 ($750 million).

AEP has one financing ($525 million) that has a noninvestment-grade ratings trigger, but AEP's access to liquidity should continue to be adequate, based on amounts available under its evolving credit facilities.

The two factors previously identified that threatened liquidity and thus credit quality (specifically trading activities and unusually high levels of short-term debt) were addressed in 2003 and no longer represent a significant risk to the company's ability to access capital and maintain liquidity. However, trading activities still impose a lot of liquidity requirements despite the efforts to contain trading risk.

KPSC Case No. 2005-00068
KIUC 2nd Set Data Request
Item No. 1
Page 9 of 25

Outlook

The stable outlook for Kentucky Power assumes a reasonable burden of future environmental compliance costs and a continued strategic emphasis on regulated operations by AEP. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings would be possible over time, if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile.

Copyright © 1994-2005 Standard & Poor's, a division of The McGraw-Hill Companies. The McGraw-Hill Companies
All Rights Reserved. Privacy Policy

STANDARD &POOR'S | RATINGSDIRECT

Return to Regular Format

Research:

Summary: Kentucky Power Co.

Publication date: 02-Aug-2004
Credit Analyst: Todd A. Shipman, CFA, New York (1) 212-438-7676

Credit Rating: BBB/Stable/--

Rationale

The ratings on Kentucky Power Co. are based on the consolidated credit quality of its parent American Electric Power Co. Inc. (AEP). AEP's ratings reflect the company's transition to a renewed strategic focus on its core utility operations from a business model that balanced regulated and unregulated activities. The electric utilities comprising the AEP system range from Texas to Ohio and beyond and operate as either low-risk "wires" businesses or fully integrated regulated utilities. Electric generation is housed in and out of utility rate bases, but a majority of the capacity is directly or virtually subject to stabilizing regulatory oversight. Trading operations once played a prominent role at AEP, but have ceased to be a strategic focus and exert a smaller influence on the company's credit profile.

Electric utility operations are slightly above average, characterized by competitive rates, good reliability, a strong collection of low-cost, coal-fired generation in the eastern part of the system, and mostly supportive regulatory relationships. Service territories vary widely, ranging from rust-belt and rural areas that exhibit less-than-favorable economic profiles, to higher-growth, service economy-oriented regions like Columbus, Ohio, which are much more resistant to economic cycles. For AEP, the diversity in markets and regulation improves credit quality. In the two primary states that have introduced competition (Texas and Ohio), the transition is being managed in a fairly low-risk fashion, but the development of competition has been spotty, especially in Ohio, and some uncertainty exists about the future of deregulation.

AEP has improved its liquidity and balance sheet by refinancing more than $2 billion in utility debt, extending the terms of bank credit facilities, and issuing more than $1 billion of common equity. The company is employing a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance-sheet leverage to continue its credit quality restoration. Given AEP's business profile, financial expectations are for debt leverage to approach 50%, cash flow coverage of around 3.5x, and earnings coverage of about 3x.

Short-term credit factors.

AEP's short-term rating is 'A-2'. For the short term, AEP is expected to have an adequate level of liquidity, with substantial cash on hand of around $1 billion, stable regulated businesses that can reliably produce respectable operating cash flow, and sufficient capacity under its bank facility to meet working-capital needs. About $1.7 billion of long-term debt comes due in 2004. The company operates a money pool and sells accounts receivables to provide liquidity for the domestic electric subsidiaries.

Liquidity is provided through a commercial paper program at the parent that lends to subsidiaries through intercompany notes. The commercial paper program is backed by $2.5 billion in bank facilities that mature in 2004 ($750 million), 2005 ($1 billion), and 2006 ($750 million).

The two factors previously identified that threatened liquidity and thus credit quality (specifically, trading activities and unusually high levels of short-term debt) were addressed in 2003 and no longer represent a significant risk to the company's ability to access capital and maintain liquidity. However, trading activities still impose many liquidity requirements despite efforts to contain trading risk. Preliminary analysis of AEP's trading-related liquidity requirements indicates that the company carries sufficient liquidity to cover those needs.

Outlook

The stable outlook for AEP and subsidiaries assumes a reasonable burden of future environmental compliance costs and a continued, strategic emphasis on regulated operations. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings would be possible, if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile.

Copyright © 1994-2005 Standard & Poor's, a division of The McGraw-Hill Companies.
All Rights Reserved. Privacy Policy

Return to Regular Format

Research:
Summary: Kentucky Power Co.

Publication date: 07-Feb-2005
Primary Credit Analyst(s): Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors.com

Credit Rating BBB/Stable/--

Rationale

The ratings on Kentucky Power Co. are based on the consolidated credit quality of its parent, American Electric Power Co. Inc. (AEP). AEP's ratings reflect the company's now-complete transition to a renewed focus on its core utility operations from a business model that emphasized unregulated activities. The electric utilities comprising the AEP system range from Texas to Ohio and beyond and operate as either low-risk "wires" businesses or fully integrated regulated utilities. Electric generation is housed in and out of utility rate bases, but a majority of the capacity is directly or virtually subject to stabilizing regulatory oversight. Trading operations once played a prominent role at AEP, but have ceased to be a strategic focus and exert a small influence on the company's credit profile.

Electric utility operations are slightly above average, characterized by competitive rates, good reliability, a strong collection of low-cost, coal-fired generation in the eastern part of the system, and mostly supportive regulatory relationships. Service territories vary widely, ranging from rust-belt and rural areas that exhibit less-than-favorable economic profiles, to higher-growth, service economy-oriented regions like Columbus, Ohio, which are much more resistant to economic cycles. For AEP, the diversity in markets and regulation improves credit quality. In the two primary states that have introduced competition (Texas and Ohio), the transition is being managed in a fairly low-risk fashion, but the development of competition has been spotty, especially in Ohio, and some uncertainty exists about the future of deregulation.

AEP has improved its liquidity and balance sheet by refinancing billions in utility debt, extending the terms of bank credit facilities, and issuing significant amounts of common equity. The company has employed a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance-sheet leverage to continue its credit quality restoration. Given AEP's business profile, financial expectations are for debt leverage to approach 50%, cash flow coverage of around 3.5x, and earnings coverage of about 3x.

A large and complex environmental compliance program looms as AEP's greatest credit-related issue. The company projects an environmental capital-expenditure program totaling $3.5 billion through 2010 to meet stricter air quality standards. AEP also intends to spend substantial amounts of capital on its transmission and distribution system to improve reliability. The elevated spending levels mean the company will experience negative cash flow for several years, and can be expected to lower utility returns to the point that AEP will need to request higher rates in many of its jurisdictions. Greater regulatory risk and less-competitive rates could affect AEP's business risk profile.

Short-term credit factors.

AEP's short-term rating is 'A-2'. For the short term, AEP is expected to have an adequate level of liquidity, with substantial cash on hand of more than $1 billion, stable regulated businesses that can reliably produce respectable operating cash flow, and sufficient capacity under its bank facility to meet working-capital needs. About $1.3 billion of long-term debt comes due in 2005. The company operates a money pool and sells accounts receivables to provide liquidity for the domestic electric subsidiaries.

Liquidity is provided through a commercial paper program at the parent that lends to subsidiaries through intercompany notes. The commercial paper program is backed by $2.75 billion in bank facilities that mature in 2005 ($1 billion), 2006 ($750 million), and 2007 ($1 billion).

The two factors previously identified that threatened liquidity and thus credit quality (specifically, trading activities and unusually high levels of short-term debt) were positively addressed and no longer represent a significant risk to the company's ability to access capital and maintain liquidity. However, trading activities still impose substantial liquidity requirements despite the efforts to contain trading risk. Preliminary analysis of AEP's trading-related liquidity requirements indicates that the company carries sufficient liquidity to cover those needs. Liquidity will also be affected by an underfunded pension plan that AEP will contribute cash to throughout 2005 to bring up to fully funded status.

Outlook

The stable outlook for AEP and its subsidiaries assumes timely recovery of future environmental compliance costs and a continued strategic emphasis on regulated operations. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings would be possible over time if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile. Higher-than-expected environmental costs or a series of harmful regulatory decisions that thwart the company's recovery of those costs could lead to a negative stance or lower ratings.

Copyright © 1994-2005 Standard & Poor's, a division of The McGraw-Hill Companies.
All Rights Reserved. Privacy Policy

STANDARD
&POOR'S | RATINGSDIRECT

Return to Regular Format

Research:

Summary: Kentucky Power Co.

Publication date: 02-Mar-2005
Primary Credit Analyst(s): Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors.com

Credit Rating: BBB/Stable/--

Rationale

The ratings on Kentucky Power Co. are based on the consolidated credit profile of its parent, American Electric Power Co. Inc. (AEP). The ratings on AEP reflect the company's now-complete transition to a renewed focus on its core utility operations from a business model that emphasized unregulated activities. The electric utilities comprising the AEP system range from Texas to Ohio and beyond and operate as either low-risk "wires" businesses or fully integrated regulated utilities. Electric generation is housed in and out of utility rate bases, but a majority of the capacity is directly or virtually subject to stabilizing regulatory oversight. Trading operations once played a prominent role at AEP, but have ceased to be a strategic focus and exert only a small influence on the company's credit profile.

Electric utility operations are slightly above average, characterized by competitive rates, good reliability, a strong collection of low-cost, coal-fired generation in the eastern part of the system, and mostly supportive regulatory relationships. Service territories vary widely, ranging from rust-belt and rural areas that exhibit less-than-favorable economic profiles, to higher-growth, service economy-oriented regions like Columbus, Ohio, which are much more resistant to economic cycles. For AEP, the diversity in markets and regulation improves credit quality. In the two primary states that have introduced competition (Texas and Ohio), the transition is being managed in a fairly low-risk fashion, but the development of competition has been spotty, especially in Ohio, and some uncertainty exists about the future of deregulation.

AEP has improved its liquidity and balance sheet by refinancing billions in utility debt, extending the terms of bank credit facilities, and issuing significant amounts of common equity. The company has employed a combination of cost reductions, asset sales, and reduced common dividends to improve earnings and cash flow and reduce balance-sheet leverage to continue its credit quality restoration. Given AEP's business profile, financial expectations are for debt leverage to approach 50%, cash flow coverage of around 3.5x, and earnings coverage of about 3x.

A large and complex environmental compliance program looms as AEP's greatest credit-related issue. The company projects an environmental capital-expenditure program totaling $3.5 billion through 2010 to meet stricter air-quality standards. AEP also intends to spend substantial amounts of capital on its transmission and distribution system to improve reliability. The elevated spending levels mean the company will experience negative cash flow for several years, and can be expected to lower utility returns to the point that AEP will need to request higher rates in many of its jurisdictions. Greater regulatory risk and less-competitive rates could affect AEP's business risk profile.

Liquidity

Kentucky Power's liquidity is viewed on a consolidated basis with parent AEP. AEP's short-term rating is 'A-2'. For the short term, AEP is expected to have an adequate level of liquidity, with substantial cash on hand of more than $1 billion, stable regulated businesses that can reliably produce respectable operating cash flow, and sufficient capacity under its bank facility to meet working-capital needs. About $1.3 billion of long-term debt comes due in 2005. The company operates a money pool and sells accounts receivables to provide liquidity for the domestic electric subsidiaries.

Liquidity is provided through a commercial paper program at the parent that lends to subsidiaries through intercompany notes. The commercial paper program is backed by $2.75 billion in bank facilities that mature in 2005 ($1 billion), 2006 ($750 million), and 2007 ($1 billion).

The two factors previously identified that threatened liquidity and thus credit quality (specifically, trading activities and unusually high levels of short-term debt) were positively addressed and no longer represent a significant risk to the company's ability to access capital and maintain liquidity. However, trading activities still impose substantial liquidity requirements despite the efforts to contain trading risk. Preliminary analysis of AEP's trading-related liquidity requirements indicates that the company carries sufficient liquidity to cover those needs. Liquidity will also be affected by an underfunded pension plan that AEP will contribute cash to throughout 2005 to bring up to fully funded status.

Outlook

The stable outlook for AEP and subsidiaries assumes timely recovery of future environmental compliance costs and a continued strategic emphasis on regulated operations. Maintaining the improving trend in the company's balance sheet and other key credit measures will be necessary for continued ratings stability. Higher ratings would be possible over time if AEP demonstrates consistency in its regulated utility strategy and gradual improvement in its financial profile. Higher-than-expected environmental costs or a series of harmful regulatory decisions that thwart the company's recovery of those costs could lead to a negative stance or lower ratings.

Copyright © 1994-2005 Standard & Poor's, a division of The McGraw-Hill Companies. All Rights Reserved. Privacy Policy

Credit Opinion: Kentucky Power Company

Kentucky Power Company

Ashland, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Parent: American Electric Power Company, Inc.	
Outlook	Positive
Senior Unsecured	Baa3
Jr Subordinate Shelf	(P)Ba1
Commercial Paper	P-3

Contacts

Analyst	Phone
Richard E. Donner/New York	1.212.553.1653
A.J. Sabatelle/New York	
Daniel Gates/New York	

Key Indicators

Kentucky Power Company

	LTM 2Q2004	2003	2002	2001	2000
Adj. FFO / Debt [1][2]	22.8%	21.5%	11.7%	13.9%	16.6%
Adj. RCF / Debt [2]	18.8%	17.7%	6.6%	3.6%	8.0%
Adj. Div / NI (Payout)	52.8%	50.9%	102.7%	140.3%	146.2%
Adj. FFO / Interest [1][3]	4.32	4.26	2.76	2.46	2.87
Adj. Debt / Cap [2][4]	58.0%	58.3%	57.7%	53.4%	57.1%
Adj. NI / Equity (ROE)	10.7%	10.2%	6.9%	8.4%	7.8%

[1] Adjusted FFO deducts all annual payments for preferred securities [2] Adjusted debt includes trust preferred securities, 8x next year's operating lease expenses (excluding railcar leases), and synthetic leases [3] Adjusted interest includes all payments for preferred securities and synthetic lease payments [4] Adjusted capitalization includes adjusted debt, preferred securities and equity

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Credit Strengths

Environmental compliance costs are somewhat mitigated by a provision in Kentucky legislation allowing recovery through an environmental surcharge.

Measured approach towards deregulation, which isn't expected in the near to intermediate future due to already low rates enjoyed by customers.

Participation in the American Electric Power Company system.

Credit Challenges

Significant dividend upstream to parent relative to cash flow generation.

Rating Rationale

Kentucky Power Company's (KP) Baa2 senior unsecured rating reflects its competitive generating costs and its affiliation with the American Electric Power Company, Inc, (AEP: Senior Unsecured Debt - Baa3; positive outlook) system. The rating also reflects the company's highly leveraged balance sheet and generating asset concentration from the coal-fired Big Sandy plant. In addition, KP has provided considerable dividends to the parent relative to cash flow generation for the past few years, but in 2003, KP reduced its payout to 50% of earnings. KP's high percent of industrial and wholesale customers are somewhat mitigated as Kentucky is not expected to deregulate in the near to intermediate future as a result of already low retail rates.

The company expects that over the next five years, capital expenditures will be met through internal cash flow, the money pool of participating regulated utility affiliates and the parent and the capital markets. Proposed air quality standards may require material AEP system capital costs in the longer term. However, KP's environmental costs are mitigated because utilities operating in Kentucky may request an environmental surcharge to recover costs associated with the installation of emission control equipment, however requiring approval from the Kentucky Public Service Commission. In May of 2003, SCR technology and other combustion control technology on KP's Big Sandy Plant Unit 2 commenced operation.

Rating Outlook

The rating outlook is stable and incorporates the actions taken by AEP to strengthen its balance sheet and maintain liquidity.

What Could Change the Rating - UP

Sustainable free cash flow generation from KP's operations that is largely retained at the entity, although it does participate in the overall AEP system, and permanent reduction in financial leverage to levels comparable to more highly rated peers.

What Could Change the Rating - DOWN

Continued gradual erosion of financial cushion resulting from support of AEP utility affiliates or parent company debt.

© Copyright 2005, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to $2,300,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an

Moody's Investors Service

Global Credit Research
Opinion Update
24 DEC 2003

Opinion Update: Kentucky Power Company

Kentucky Power Company

Ashland, Kentucky, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
Senior Secured MTN	Baa1
Senior Unsecured	Baa2
Parent: American Electric Power Company, Inc.	
Outlook	Stable
Senior Unsecured	Baa3
Jr Subordinate Shelf	(P)Ba1
Commercial Paper	P-3

Contacts

Analyst	Phone
Richard E. Donner/New York	1.212.553.1653
A.J. Sabatelle/New York	
Daniel Gates/New York	

Opinion

Credit Strengths

Environmental compliance costs are somewhat mitigated by a provision in Kentucky legislation allowing recovery through an environmental surcharge.

Measured approach towards deregulation, which isn't expected in the near to intermediate future due to already low rates enjoyed by customers.

Participation in the American Electric Power Company system.

Credit Challenges

Significant dividend upstream to parent relative to cash flow generation.

Rating Rationale

Kentucky Power Company's (KP) Baa1 senior secured rating reflects its competitive generating costs and its affiliation with the American Electric Power Company, Inc, (AEP: Senior Unsecured Debt - Baa3; stable outlook) system. The rating also reflects the company's highly leveraged balance sheet and generating asset concentration from the coal-fired Big Sandy plant. In addition, KP has provided considerable dividends to the parent relative to cash flow generation for the past few years. KP's high percent of industrial and wholesale customers are somewhat mitigated as Kentucky is expected to deregulate in the near to intermediate future as a result of already low retail rates.

The company expects that over the next five years, capital expenditures will be met through internal cash flow, the money pool of participating regulated utility affiliates and the parent and the capital markets. Proposed air quality standards may require material AEP system capital costs in the longer term. However, KP's environmental costs are mitigated because utilities operating in Kentucky may request an environmental surcharge to recover costs associated with the installation of emission control equipment, however requiring approval from the Kentucky Public Service Commission. KP's share of AEP system costs has been estimated at $180 million, of which $179 million has already been spent as of 09/30/2003. In May of 2003, SCR technology and other combustion control technology on KP's Big Sandy Plant Unit 2 commenced operation.

What Could Change the Rating - UP

Sustainable free cash flow generation from KP's operations that is largely retained at the entity, although it does participate in the overall AEP system, and permanent reduction in financial leverage to levels comparable to more highly rated peers.

What Could Change the Rating - DOWN

Continued gradual erosion of financial cushion resulting from support of AEP utility affiliates or parent company debt.

Rating Outlook

The rating outlook is stable and incorporates the actions taken by AEP to strengthen its balance sheet and maintain liquidity.

Recent Developments

In December 2003, AEP's Board of Directors elected Michael G. Morris, former chairman, president and chief executive officer of NorthEast Utilities, to succeed E. Linn Draper Jr. as president and chief executive officer effective Jan. 1, 2004. Morris will also succeed Dr. Draper as AEP chairman upon Draper's retirement from that position on or before April 27, 2004, the scheduled date of the company's annual meeting of shareholders. In April 2003, AEP implemented their planned common dividend cut by about 40%. Since February 2003, AEP and its subsidiaries have issued $2.5 billion of debt, $2 billion of which was issued at four operating subsidiaries, with the remaining $500 million issued at AEP. Additionally, AEP has extended a large tranche of its bank facility (which originally expired in May 2003, and KP is a direct borrower under the two new facilities of up to $100 million under each facility) and issued more than $1 billion of new common stock equity.

© Copyright 2004, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, MOODY'S). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling. MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to $1,800,000.

Moody's Investors Service
Global Credit Research

Fundamental Credit Research
Opinion Update
Published 5 Sep 2003

Kentucky Power Company

Ashland, Kentucky, United States

Ratings

Category	Moody's Rating
Issuer Rating	Baa2
Senior Secured MTN	Baa1
Senior Unsecured	Baa2
Parent: American Electric Power Company, Inc.	
Senior Unsecured	Baa3
Jr Subordinate Shelf	(P)Ba1
Commercial Paper	P-3

Contacts

Analyst	Phone
Richard E. Donner/New York	1.212.553.1653
A.J. Sabatelle/New York	
Daniel Gates/New York	

Opinion

Credit Strengths

Environmental compliance costs are somewhat mitigated by a provision in Kentucky legislation allowing recovery through an environmental surcharge.

Measured approach towards deregulation, which isn't expected in the near to intermediate future due to already low rates enjoyed by customers.

Participation in the American Electric Power Company system.

Credit Challenges

Significant dividend upstream to parent relative to cash flow generation.

Rating Rationale

Kentucky Power Company's (KP) Baa1 senior secured rating reflects its competitive generating costs and its affiliation with the American Electric Power Company, Inc. (AEP: Senior Unsecured Debt - Baa3; stable outlook) system. The rating also reflects the company's highly leveraged balance sheet and generating asset concentration from the coal-fired Big Sandy plant. In addition, KP has provided considerable dividends to the parent relative to cash flow generation for the past few years. KP's high percent of industrial and wholesale customers are somewhat mitigated as Kentucky is expected to deregulate in the near to intermediate future as a result of already low retail rates.

The company expects that over the next five years, capital expenditures will be met through internal cash flow, the money pool of participating regulated utility affiliates and the parent and the capital markets. Proposed air quality standards may require material AEP system capital costs in the longer term. However, KP's environmental costs are mitigated because utilities operating in Kentucky may request an environmental surcharge to recover costs associated with the installation of emission control equipment, however requiring approval from the Kentucky Public Service Commission. KP's share of AEP system costs has been estimated at $163 million, of which $135 million has already been expensed as of year end 2002. Construction of SCR technology on KP's Big Sandy Plant Unit 2 is scheduled for completion during 2003.

What Could Change the Rating - UP

Sustainable free cash flow generation from KP's operations that is largely retained at the entity, although it does participate in the overall AEP system, and permanent reduction in financial leverage to levels comparable to more highly rated peers.

What Could Change the Rating - DOWN

Continued gradual erosion of financial cushion resulting from support of AEP utility affiliates or parent company debt.

Rating Outlook - Stable

The rating outlook is stable and incorporates the actions taken by AEP to strengthen its balance sheet and maintain liquidity.

Recent Developments

In April 2003, AEP implemented their planned common dividend cut by about 40%. Since February 2003, AEP and its subsidiaries have issued $2.5 billion of debt, $2 billion of which was issued at four operating subsidiaries, with the remaining $500 million issued at AEP. Additionally, AEP has extended a large tranche of its bank facility (which originally expired in May 2003), and issued more than $1 billion of new common stock equity.

© Copyright 2002 by Moody's Investors Service, 99 Church Street, New York, NY 10007. All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS COPYRIGHTED IN THE NAME OF MOODY'S INVESTORS SERVICE, INC. ("MOODY'S"), AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by **MOODY'S** from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and **MOODY'S**, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall **MOODY'S** have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of **MOODY'S** or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if **MOODY'S** is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. **NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.** Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling. Pursuant to Section 17(b) of the Securities Act of 1933, **MOODY'S** hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by **MOODY'S** have, prior to assignment of any rating, agreed to pay to **MOODY'S** for appraisal and rating services rendered by it fees ranging from $1,000 to $1,500,000.

MADE IN U.S.A

Fitch Ratings
FitchResearch

> Issuer Summary

Kentucky Power Co.

KPSC Case No. 2005-0068
KIUC 2nd Set Data Request
Item No. 1
Page 22 of 25

RATING HISTORY - Long Term Rating

Date	Rating Action	Rating
28-JUN-2002	Affirmed	BBB⊙
01-JUN-2000	New Rating	BBB

	POSITIVE	NEGATIVE	EVOLVING	STABLE
OUTLOOK	⊕	⊖	⊕	⊙
WATCH	▲	▼	◆	n/a

RATING HISTORY - Short Term Rating

Date	Rating Action	Rating
28-JUN-2002	Affirmed	F2
01-JUN-2000	Revision Rating	F2
01-MAY-1998	New Rating	F2

Copyright © 2005 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries.
Code of Conduct Terms of Use Privacy Policy

Fitch Ratings
FitchResearch

Kentucky Power Co.

Long Term Rating: BBB 28-JUN-2002 Affirmed
Short Term Rating: F2 28-JUN-2002 Affirmed

Market Sector (s): Corporates, Electric-Corporate
Country: United States
Analyst(s): Global Power: Furey, Denise M (Primary)
Global Power: Hornick, Robert
Identifier(s): FIRST CALL TICKER: AEP
BLOOMBERG TICKER: AEP4
FITCH TICKER: AEP4
CUSIP: 491386
More

	POSITIVE	NEGATIVE	EVOLVING	STABLE
OUTLOOK	⊕	⊖	⊛	⊙
WATCH	▲	▼	◆	n/a

INTERNATIONAL RATINGS

show/hide all

add ✓ to portfolio

⊟ Commercial Paper

⊟ **Cp**

MATURITY DATE	CURRENCY	TOTAL AMOUNT	COUPON RATE	RATINGS LONG TERM	RECOVERY	SHORT TERM	CUSIP	ISIN
N/A	USD	150,000,000	--	--	--	F2	49139J	--
N/A	USD	150,000,000	--	--	--	F2	49139K	--

⊟ Senior Unsecured

⊟ **Notes**

MATURITY DATE	CURRENCY	TOTAL AMOUNT	COUPON RATE	RATINGS LONG TERM	RECOVERY	SHORT TERM	CUSIP	ISIN
01-JAN-2008	USD	--	--	BBB	--	--	--	--
01-JUN-2007	USD	125,000,000	--	BBB	--	--	491386AK4	US491386AK43
01-OCT-2007	USD	--	6.91%	BBB	--	--	49138QAA2	--
10-NOV-2008	USD	--	6.45%	BBB	--	--	49138QAB0	--
01-DEC-2032	USD		05.625%	BBB	--	--	491386AL2	--

▲ BACK TO TOP

Copyright © 2005 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries.
Code of Conduct Terms of Use Privacy Policy

Kentucky Power Co.

Profile

KPCO is a wholly owned subsidiary of the American Electric Power (AEP). KPCO is a vertically integrated utility engaged in the generation, transmission and distribution of electric power to approximately 172,000 retail customers in eastern Kentucky.

Related Research

- Indiana Michigan Power Company Credit Update 2/4/03
- Southwestern Electric Power Company Credit Update 2/4/03

Key Credit Strengths

- No expectation of retail competition for the foreseeable future
- Parent's (AEP's) expertise in finance and wholesale electric markets.
-

Key Credit Concerns

- Leverage is high
- Heavy industrial load in cyclical industries
-

Rating Rationale

The Kentucky Power Company (KPC) credit profile is enhanced by a stable earnings stream from regulated electric utility operations, constructive regulation and the expectation that utilities in Kentucky will not be deregulated in the near future. The ratings also reflect leverage that is aggressive for the ratings category and a service territory with heavy industrial load in cyclical industries. The ratings take into consideration an automatic fuel adjustment clause with only a two month lag for fuel price changes that serves to stabilize earnings and cash flow. The company's credit quality also benefits from its participation in the American Electric Power, Inc. (AEP) power pool and it benefits from AEP's expertise in finance and wholesale energy markets. The ratings of the AEP utilities are constrained and in the case of KPO enhanced by the highly centralized management of electric and treasury operations. The ratings outlook is stable.

Liquidity and Debt Structure

The company has access to short term financing through a cash pool managed at the parent level. KPCO and the other utility subsidiaries of AEP fulfill short term financing needs through a centralized pooling system whereby entities with excess short term liquidity lend to affiliates with cash needs. In 2002 the company also received a capital injection from the parent of $50mm. These funds were in part used to finance unusually high capital expenditure requirements (CapEx) of $178mm of which $135mm were for the pollution control facilities. CapEx is expected to return to more normal levels in 2003 as the company has completed most of pollution control projects. Measures of liquidity have been traditionally weak for this company, and in 2002 cash flow from operations (CFO) only covered interest expense 2.0xs. Also, CFO after dividends and adjusted for the capital injection covered only

46% of capital expenditures. It is anticipated that liquidity levels will improve in 2003 as the rate increases relating to environmental costs should increase free cash flow.

The company's leverage has been deteriorating as evidenced by the increase in total debt to capitalization to 62.0% as of Dec. 31, 2002 from 58.79% as of December 31, 2000. The increase in debt occurred despite the capital injection due to dividend payments to the parent and external borrowings for investments in pollution control facilities. The company has refinanced the remainder of its first mortgage bonds with unsecured debt in 2002 making the BBB senior unsecured rating is the most senior rating of this company.

Recent Developments

Retail electric competition is not likely to be enacted in Kentucky in the near future. There has been very little pressure in the state for open access, since Kentucky has some of the lowest rates in the United States. The earliest time frame for restructuring plan to pass through the legislature is 2004, and a commencement date would probably be later.

While KPC has an automatic fuel adjustment clause, KPC's environmental adjustment clause is not automatic. KPC sought an an increase in the surcharge for environmental compliance costs of $21 million per annum to compensate KPC for an investment of $163 mm in pollution control faculties designed to reduce nitrogen oxide emissions and on April 1, 2003 the company recieved approval for an increase of $17.1million pa.

Copyright © 2005 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries.
Code of Conduct Terms of Use Privacy Policy

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the Company's response to KIUC 1-4, which requested a copy of the Rockport Unit Power Agreements. KIUC has been unable to locate or obtain a copy of these agreements in its files. Please provide a copy of the agreements.

RESPONSE

Due
~~Do~~ to the voluminous nature of this response, the Company is providing all parties of record with one CD which contains a copy of the Rockport Unit Power Agreement.

WITNESS: Errol K Wagner

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the Company's response to KIUC 1-37. Please explain why the information is not available from I & M, AEGCO and/or AEP Service Corporation, or wherever the records containing the requested information are maintained.

RESPONSE

Once the Company sold Rockport Unit No. 2, the Company did not maintain the accounting records of the original cost of Rockport Unit No. 2.

WITNESS: Errol K Wagner

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the Rockport Unit Power Agreement billings for January 2005 through March 2005 provided in response to KIUC 1-7. Please explain why these bills do not reflect the new I.R.C. Section 199 deduction given that these billings are pursuant to a cost-based tariff.

RESPONSE

The Company does not agree with the premise, that the Rockport Unit Power billings for January 2005 through March 2005 provided in response to KIUC 1-7 does not reflect the new I.R.C. Section 199 deduction.

WITNESS: Errol K Wagner and Mike J Kelley

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the Rockport Unit Power Agreement billings for January 2005 through March 2005 provided in response to KIUC 1-7. Does the Company agree that Kentucky Power Company should be provided the benefit of the new Section 199 deduction effective January 1, 2005? If not, then please provide the Company's rationale and cite all authoritative sources relied on for its position.

RESPONSE

Yes. The Company agrees that it should be provided the benefit of the new Section 199 deduction as of January 2005.

WITNESS: Errol K Wagner and Mike J Kelley

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the Company's ECR filings for the expense months of January 2005 through March 2005. Please confirm that the Rockport environmental costs included in those filings did not reflect the benefit of the new Section 199 deduction.

RESPONSE

Confirmed.

WITNESS: Errol K Wagner and Mike J Kelley

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the Company's ECR filings for the expense months of January through March 2005. Does the Company agree that the ECR should reflect the benefit of the new Section 199 deduction effective with the January 2005 expense month for the Rockport environmental costs? If not, then please provide the Company's rationale and cite all authoritative sources relied on for its position.

RESPONSE

No. The Company does not agree that the ECR should reflect the total benefit of the new Section 199 deduction effective with the January 2005 expense month. As the Company understands KRS 278.183, only the costs associated with complying with the Federal Clean Air Act should flow through the environmental surcharge. Of the total AEG's portion of the Rockport electric plant in service as of March 31, 2005 of $119,550,492 only $796,324 or approximately .67% was reflected in the environmental surcharge calculations. Should the Commission include the Rockport Low NOx burner investment of $13,307,838 in the environmental surcharge calculations, the percentage would only change to approximately 11.80%.

WITNESS: Errol K Wagner and Mike J Kelley

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the Company's filings for the expense months of January 2005 through March 2005. Please provide a quantification of the ECR revenue requirement effect of the new Section 199 deduction on the Rockport environmental costs for each of these months.

RESPONSE

The Company's best estimate at this time as to the revenue requirement effect of the new Section 199 deduction on the Rockport environmental costs included in the ECR filings for the expense months of January, February and March 2005 are as follows:

January 2005	$45.58
February 2005	$45.32
March 2005	$39.83

The Company must stress that the I.R.C.Section 199 deduction currently being used as an estimate will be subject to adjustment based upon the Company's determination of the application of this section of the code once the Internal Revenue Service issues additional guidance in the form of regulations and pronouncements. In particular, the Company awaits guidance as the application of this section of the code as it impacts integrated utilities.

WITNESS: Errol K Wagner and Mike J Kelley

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the Company's ECR filings for the expense months of January 2005 through March 2005. Does the Company agree that the ECR should reflect the benefit of the new Section 199 deduction effective with the January 2005 expense month for the Kentucky Power Company environmental costs other than the Rockport and AEP System Pool costs? If not, then please provide the Company's rationale and cite all authoritative sources relied on for its position.

RESPONSE

No. The Company does not agree that the ECR should reflect the total benefit of the new Section 199 deduction effective with the January 2005 expense month. As the Company understands KRS 278.183, only the costs associated with complying with the Federal Clean Air Act should flow through the environmental surcharge. Of the total KPCo's net production plant in service as of March 31, 2005 of $288,336,427 only $145,178,381 or approximately 50% was reflected in the environmental surcharge calculations for the expense month of March, 2005.

WITNESS: Errol K Wagner and Mike J Kelley

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the Company's ECR filings for the expense months of January 2005 through March 2005. Please provide quantification of the ECR revenue requirement effect of the new Section 199 deduction on the Kentucky Power Company environmental costs other than the Rockport and AEP System Pool costs for each of these months.

RESPONSE

The Company's best estimate at this time as to the revenue requirement effect of the new Section 199 deduction on the Kentucky Power Company's environmental costs included in the ECR filings for the expense months of January, February and March 2005 are as follows:

Month	Amount
January 2005	$10,208
February 2005	$10,151
March 2005	$8,922

The Company must stress that the I.R.C.Section 199 deduction currently being used, as an estimate will be subject to adjustment based upon the Company's determination of the application of this section of the code once the Internal Revenue Service issues additional guidance in the form of regulations and pronouncements. In particular, the Company awaits guidance as the application of this section of the code as it impacts integrated utilities.

WITNESS: Errol K Wagner and Mike J Kelley

Kentucky Power
d/b/a
American Electric Power

REQUEST

a. Refer to ES form 3.11 for the expense months of January through March 2005. Please explain why there is no allowance activity during each of these months (column 1) except for 1,508 in "other additions" in January and the "consumed by Kentucky Power" in each of the three months. In your response, address the fact that page 10-1 of the AEP System Pool invoices for the same months indicate that allowances were utilized by Kentucky Power for sales to non-affiliated systems.

b. Please provide a workpaper, which reconciles the Kentucky Power allowances, expended for sales to non-affiliated systems shown on page 10-1 of the AEP System Pool invoices to the withdrawals shown for off-system sales on ES Form 3.11 for each month December 2004 through March 2005.

RESPONSE

a. Form ES 3.11 records the number of allowances that are consumed, purchased, sold or transferred for inventory purposes, while page 10-1 of the AEP Interchange Power Statement (referred to by KIUC as the AEP System Pool invoice) reflects the number of allowances actually allocated to off-system sales based on Article 4.3 of the Interim Allowance Agreement (IAA) during the course of a particular month. The settlement of the off-system sales allocation is in cash, thus there is no reason to show the inventory related figures on ES 3.11 pertaining exclusively to off-system sales. For example, the number shown on the January 2005 ES 3.11 (1,746 allowances consumed) matches that of AEP Interchange Power Statement, page 10-1, column 4, which forms the basis of the energy ratio for off-system sales to the total, thus culminating into the cash settlement based on Article 4.3 of the IAA. In January 2005 a purchase of 1,508 allowances was made from an external party, which is now included in inventory.

b. See response to Question KIUC 2-11 (a). It should be noted that the entry “Off-System Sales” on ES 3.11 pertains to the sales of emission allowances rather than off-system sales of energy.

WITNESS: Errol K Wagner

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to paragraph 4.3 of the AEP Interim Allowance Agreement entitled "Allowances Consumed for Power Sales to Foreign Companies." Is the net result of this paragraph that Kentucky Power is allocated the margin, defined as the market value less the cost of the allowances consumed, on allowances consumed for off-system sales? It not, then please explain your response.

RESPONSE

Kentucky Power is allocated its Member Load Ratio share of the aggregate margin of the off-system sales of all AEP operating companies. The difference between allowances at market value and allowances at cost is an adjustment made in the determination of off-system sales margins.

WITNESS: Errol K Wagner

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to page 11 of the AEP System Pool invoice for the expense month of March 2005 entitled "Adjustment o t Account for Market Price (l) vs. Inventory cost (2) Differential of Emission Allowances." Is this the page that makes the computation necessary to implement paragraph 4.3 of the AEP Interim Allowance Agreement by computing the margins for each operating Company on allowances consumed for off-system sales? If not, then please explain the purpose of this page and how the results are used.

RESPONSE

The Company assumes that the reference to the "AEP System Pool invoice" is a reference to the Interchange Power Statement (IPS). Page 11 makes the adjustment from market price to cost for allowances consumed to make off-system sales. Carrying over the results from that page, sequentially, to Pages 4, 2, and 1 - - which ultimately determines the cash settlement between the AEP Service Corp. as Agent of the Pool and each operating company - - effectively implements the provisions of paragraph 4.3 of the AEP Interim Allowance Agreement.

WITNESS: Errol K Wagner